AR53



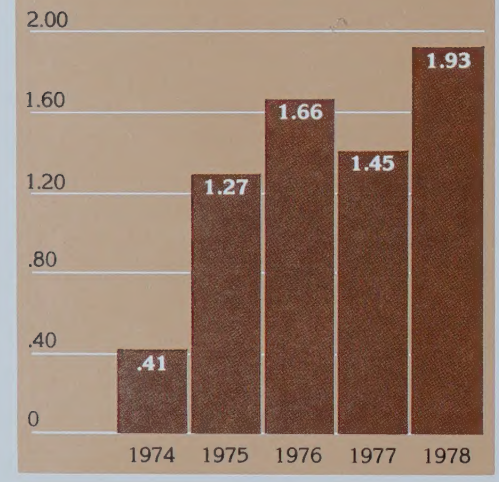
MELCOR DEVELOPMENTS LTD.

1978 ANNUAL REPORT

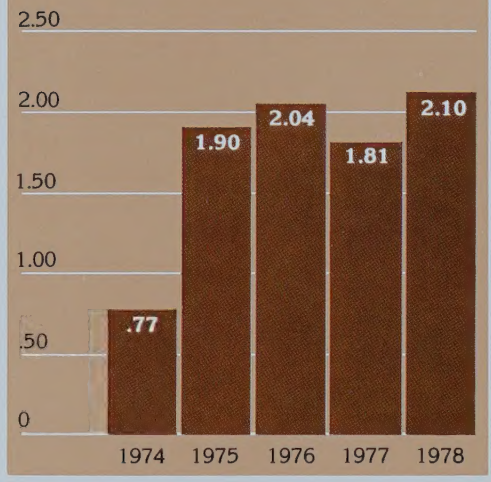
FINANCIAL HIGHLIGHTS

	1978	1977
Total Assets	**$ 99,842,000**	68,476,000
Shareholders Equity	**25,005,000**	21,035,000
Gross Income	**34,093,000**	33,776,000
Earnings Per Share		
- From operations	**1.93**	1.45
- For Period	**1.93**	1.89
Cash Flow Per Share	**2.10**	1.81

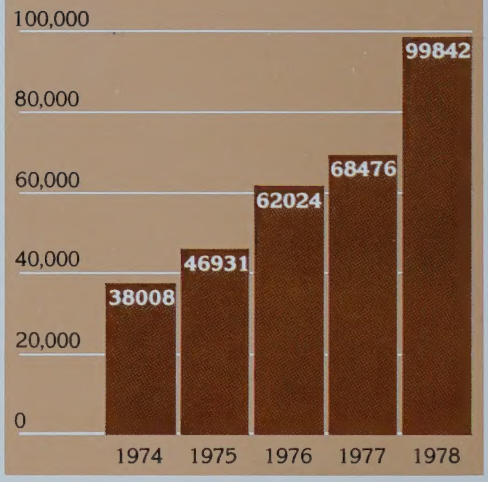
EARNINGS PER SHARE - FULLY DILUTED
In dollars



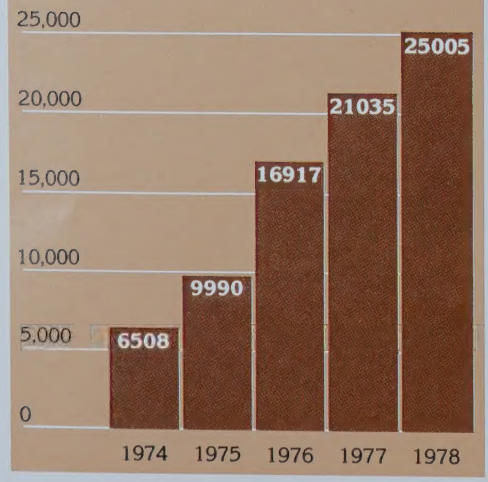
CASH FLOW PER SHARE
In dollars



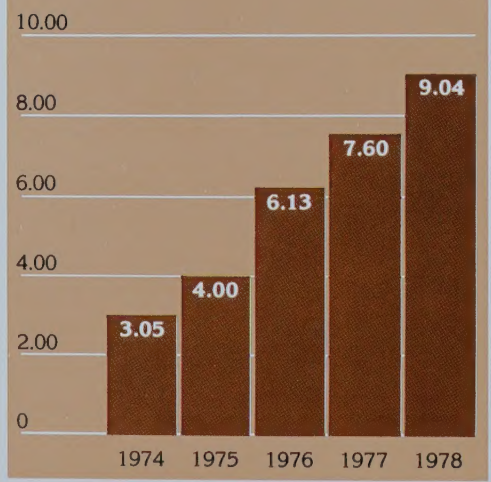
ASSETS
In thousands of dollars



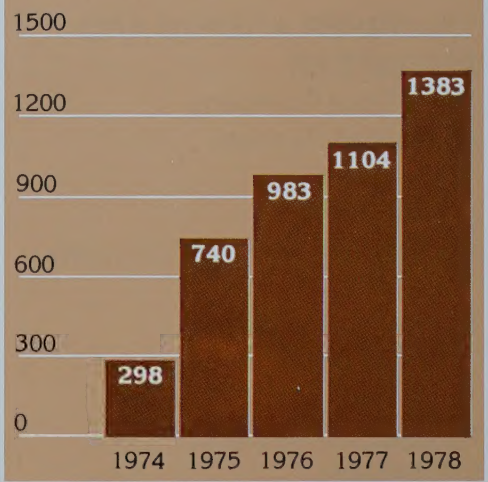
SHAREHOLDERS EQUITY
In thousands of dollars



SHAREHOLDERS EQUITY - PER SHARE
In dollars



DOLLAR VALUE OF DIVIDEND PAYMENTS
In thousands of dollars



We are pleased to report that 1978 was a record year for Melcor. Net income after tax from operations was $5.3 million or $1.93 per share compared to $4.0 million or $1.45 per share earned the previous year.

Through the acquisition of land and development of revenue properties the assets of the Company increased 45% to $99.8 million. Shareholders equity, after payment of $1.4 million in dividends, increased to $25.0 million.

For the information of shareholders, management conducted an evaluation of the market value of the Company's assets as at December 31, 1978. Based on this evaluation, the market value exceeds book value by $98.1 million. After deduction of income taxes at current rates, the unrealized excess of market value over book value would increase shareholders equity to $77.4 million or $27.84 per share.

For 1979, the Directors have approved an increase in the dividend from $0.50 to $0.56 per share. Payments will be semi-annual with $.28 payable June 15, 1979 to shareholders of record at June 1, 1979 and $.28 payable December 15, 1979 to shareholders of record at December 1, 1979.

Land development continues to be Melcor's major activity and source of revenue. During the past year, we substantially increased our land investments in Alberta and made our first investment in the U.S. market, with the purchase of 370 acres in Phoenix.

In March of this year, we opened an office in Phoenix and anticipate initial sales of developed land to occur late this year or early next year.

Approvals, for major developments in the Edmonton region and in Calgary, have been obtained and will provide an excellent base for another successful year in 1979.

Melcor Homes adjusted its product line to meet changing market patterns and, though the 1979 housing market will remain very competitive, consumer response to our new home designs has been positive. Indications are that the division will experience growth in sales and income.

Revenue properties had a successful year with high occupancy rates in completed projects and satisfactory leasing progress in new projects. In accordance with our planned program of expansion, several sites were obtained for future development.

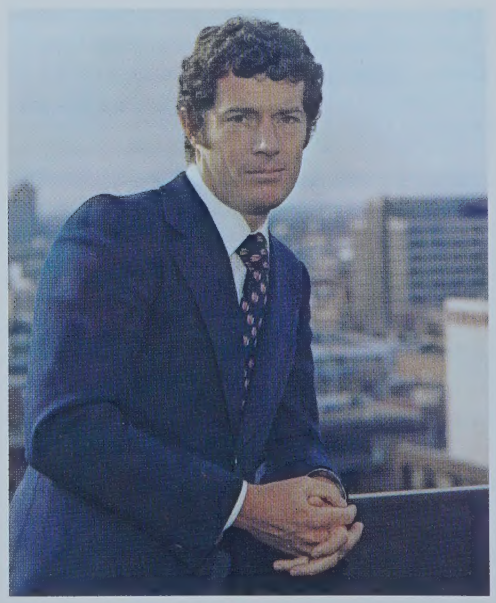
There is more detailed information on each division later in our report.

We are confident that 1979 will be a satisfactory year and expect a further growth in earnings.

In recognizing the importance of our personnel in meeting company plans and objectives, we sincerely thank all employees for their contributions to the growth of the company.

On behalf of the Board of Directors,

T, C. Melton,
President



The land development division performed strongly in its major market areas of Edmonton and Calgary. Substantial increases in sales and earnings were achieved during the year.

In Phoenix, Arizona, the company acquired a solid land position and completed arrangements to open an operating region under the name of Melcor Developments Arizona Inc.

During the year, 900 acres of land were acquired in the Edmonton, Calgary, Red Deer and Phoenix, Arizona regions. Additionally: 279 acres were optioned in the Red Deer region and options were exercised on 682 acres in the Calgary region.

Annexations affecting 967 acres were approved in Spruce Grove, Leduc, Calgary, Lethbridge, Regina and Phoenix.

Calgary

The concept plans for the Crowchild Stage 2 area and Crowchild Centre were approved by the city. A major mixed-use project featuring retail, commercial, office and residential elements with regional shopping center core, Crowchild Centre now requires zoning and planning approvals.

In the Ranchlands community, Ranchlands Estates was selected for the Calgary Hudac Home Parade and public response was excellent. Stage 3 was commenced with completion and marketing anticipated for 1979.

The 105 single family lots, in the final stage of the company's Dalhousie community, were registered and sold.

During the year, the company acquired 137 acres in north Calgary at a major highway intersection. This area was subsequently included in an annexation to the City of Calgary.

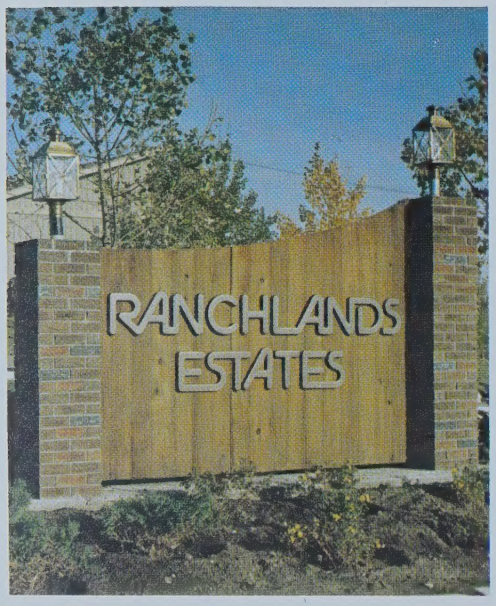
The company also proposed a 682 acre industrial business park at Balzac to the Municipal District of Rockyview and the Calgary Regional Planning Commission. A decision is pending.

Cochrane

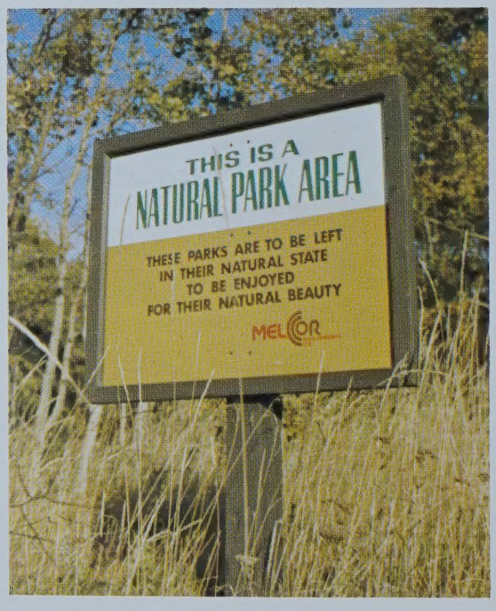
The company entered into a joint venture with Allarco Developments Ltd. and has submitted an application for annexation on 506 acres adjoining Cochrane, Alberta.

Lethbridge

The Local Authorities Board approved the company's 200 acre









Starting above and moving clockwise: *One of the graceful entrance signs to Ranchlands Estates; Ranchlands Estates hosted the 1978 Calgary Hudac Home Parade; An attractive welcome to residents and visitors to Millgrove Estates in Spruce Grove; Aerial view of Phoenix shows Melcor's 250-acre parcel in foreground; Site sign symbolizes company activities in Blackfalds; Sign identifies a natural park in Ranchlands.*

annexation application. Development is expected to commence in 1981.

Edmonton

The company received zoning and planning approvals for a 75 acre residential subdivision in West Edmonton. Situated in a high-demand market area, development and sales are expected to occur in 1979.

Leduc

The company completed and sold the fourth stage of the Southpark community. A fifth and final stage is undergoing planning and development for marketing in 1979 and 1980.

During the year, the company received annexation approval for 160 acres and is participating in an application for the annexation of 80 acres of future industrial land.

Spruce Grove

In 1978, the company's Westgrove subdivision was registered and 150 lots in stage 1 were sold. Final development will occur in 1979 and sales are anticipated in the second stage.

The Woodhaven project, a joint venture with the Town of Spruce Grove, was completed and sold.

The first stage of the Yellowhead Business Industrial Park was serviced and sales have commenced.

Annexation was approved for 240 acres of which 160 acres are owned by the company.

The sale of the Parkland Center Shopping Center site was renegotiated; the company will now joint venture the development of the Center.





County of Leduc

Response to the industrial park at Nisku was strong and currently, only one parcel of land remains for sale in the company's Sky Harbour Industrial Park.

County of Strathcona

Although the County of Strathcona approved a general plan for all company land holdings adjoining Sherwood Park, development may be affected by City of Edmonton annexation proposals.

Red Deer

The company purchase of 139 acres adjoining the southeast corner of the city has subsequently been included in an annexation petition by the City of Red Deer.

Within the city, 108 acres, joint ventured with Cairns Homes Ltd., was acquired.

In 1979, in the village of Blackfalds, 5 miles north of Red Deer, the company purchased 149 acres of future residential land and, also, obtained an option on a further 279 acres adjoining the village.

Regina

Annexation was approved for 280 acres, of which the company holds a 25% interest. Concept plans for commercial and residential uses have also been approved.

Phoenix

In 1978, the company purchased residential land in two strong market areas.

In south Phoenix, adjoining Interstate 10 and the South Mountain Park, the company holds 250 acres and, in northeast Phoenix between Paradise Valley and Scottsdale, an additional 120 acres. With planning approvals and zoning underway, development will commence in 1979 on both parcels.

In 1979, the company acquired an additional 100 acres in northeast Phoenix and is seeking other holdings in Phoenix and vicinity.

A regional office of the land division has been established in Scottsdale, Arizona. It will operate under the name of Melcor Developments Arizona Inc., incorporated as a subsidiary of Melcor Developments Ltd.

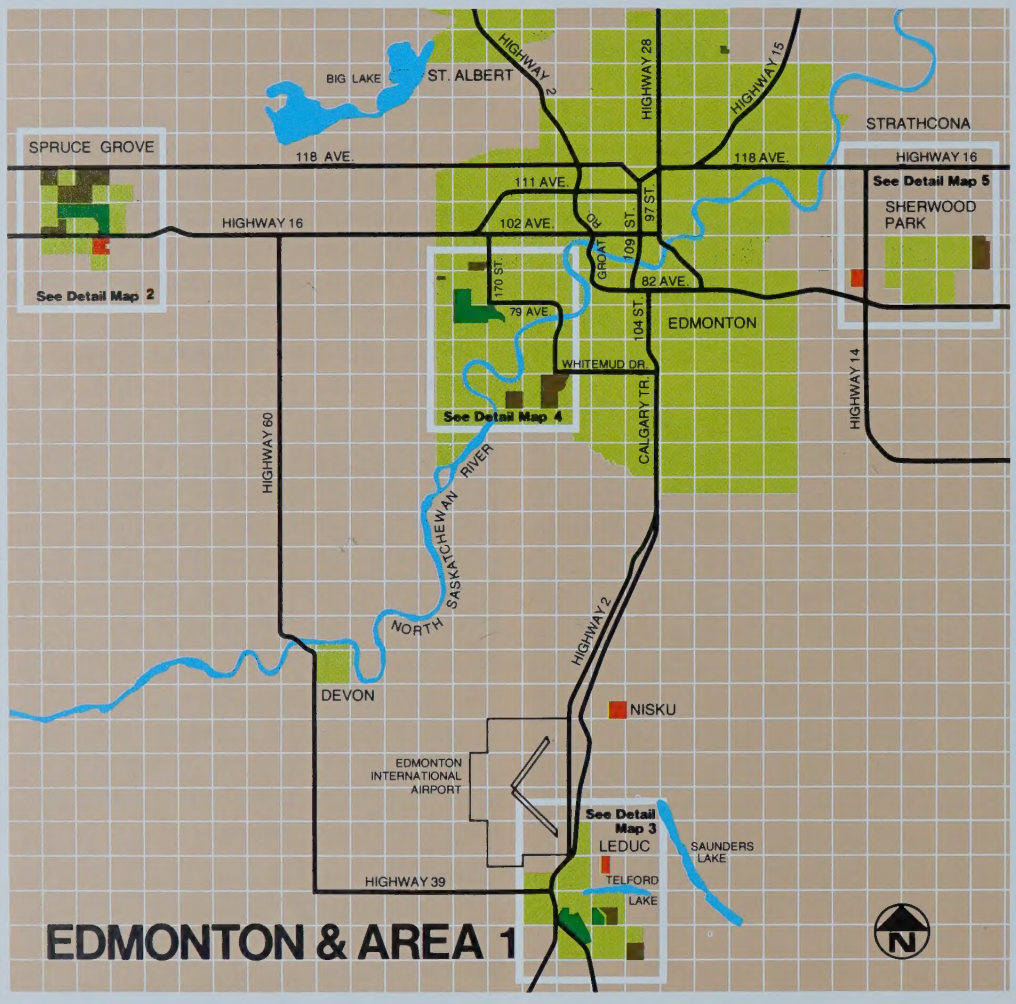
Maps

Land being held for future industrial development.

Land being held for future commercial development.

Land being held for future residential and residential land presently under development.

Developed land.











Maps

Land being held for future industrial development.

Land being held for future commercial development.

Land being held for future residential and residential land presently under development.

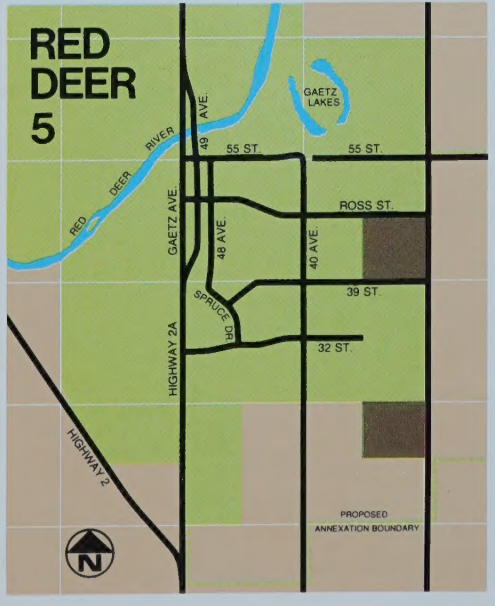
Developed land.













Maps

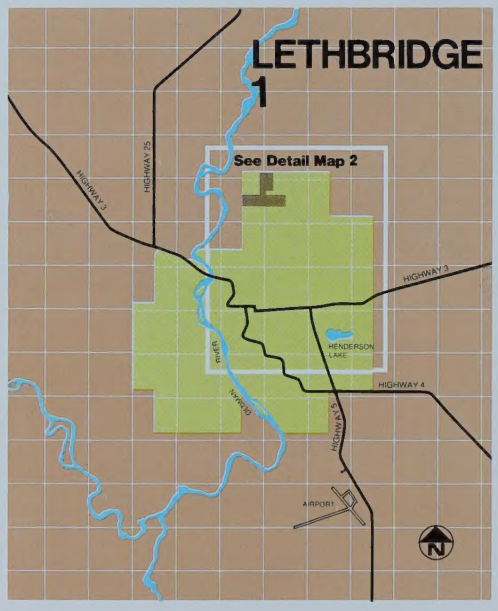
Land being held for future industrial development.

Land being held for future commercial development.

Land being held for future residential and residential land presently under development.

Developed land.











The company experienced very keen competition in the new home market, in 1978.

During the year, the company started 211 housing units and sold 198, thus maintaining an inventory position at desirable levels.

Profit levels, however, did not meet budget predictions as the number of units sold and occupied was down approximately 30% from the preceding year. For this reason, housing designs and marketing efforts were significantly improved.

In Edmonton and Calgary, an extensive market analysis showed that the company's market share could be increased through major product changes. Emphasis was therefore placed on product revisions and starts were significantly reduced.

In Regina, the new home market remained slow and provided little opportunity for growth of company operations.

Demand in Central Alberta remained high throughout the year and enabled the Red Deer division to return satisfactory profit margins to the company.

The re-organization of personnel, combined with the on-going product design changes, should provide positive results in 1979. Housing demand will remain favourable in Alberta and Saskatchewan.

Starting with upper left picture and moving clockwise: *Melcor Home kitchen treatment in Willowdale, West Edmonton; Show home living room in Woodhaven, Spruce Grove; Company show home and sales office in Red Deer; Exterior shot of Regina show home; Melcor show home in Ranchlands Estates, Calgary; Decorator treatment in Calgary show home creates this warm setting.*













The Investment Properties Division continued to grow in the active commercial real estate market.

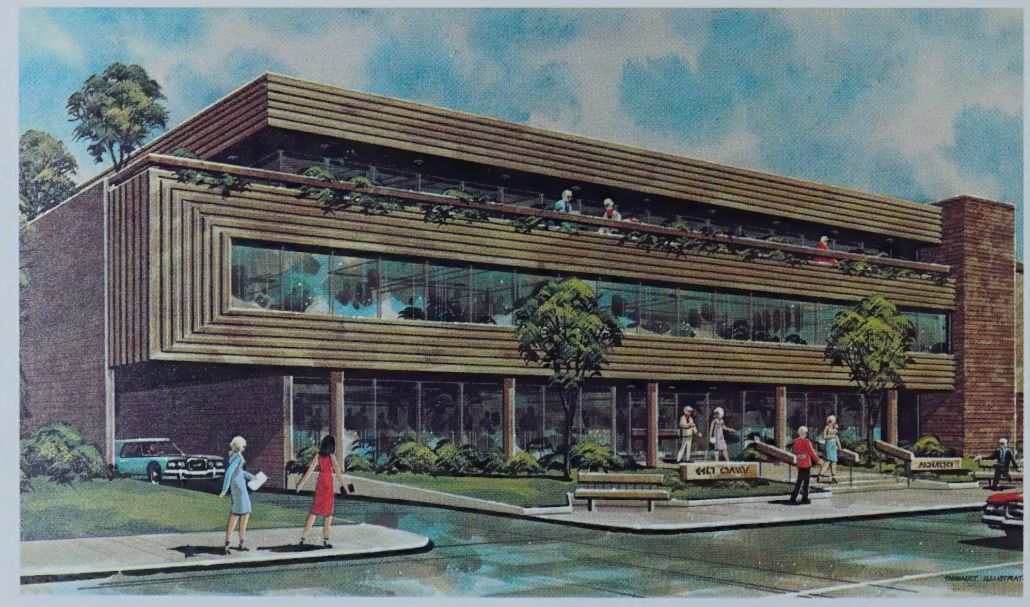
In Edmonton, June 1978 marked the on-schedule completion of the 73,000 sq. ft. Westcor office building. Leasing has progressed well, with commitments now in place for almost 90% of the office tower. Existing properties in the portfolio continued to operate near complete occupancy and generated a stable income base for the Company. Acquisitions, made this year, will provide a number of excellent industrial and downtown commercial sites for future development.

In Calgary, a 100,000 sq. ft. warehouse project was complete in 1978, and leasing programs are well under way. Plans are currently being finalized for a 25,000 sq. ft. suburban office building on Kensington Road, with completion expected in early 1980.

In Regina, a small office/retail building has been constructed and a neighbourhood shopping centre site is under consideration for early development.

The Investment Properties Division will continue its activities in the evaluation of opportunities and the development of profitable new investments.

Starting with upper left picture and moving clockwise: *Rendering of 3-storey surburban office building on Kensington Road, Calgary; Office/warehouse project in Franklin Park, Calgary; Office/retail building in Regina; Office/warehouse project on Airport Road in Edmonton; Dramatic shot of the Westcore office building on 24th street in Edmonton.*











CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	1978 (000's)	1977 (000's)
Income		
Land sales	$ 17,252	13,197
House sales	13,667	17,602
Revenue property income	1,706	1,647
Interest on agreements receivable	1,133	871
Mortgage interest and discounts	104	83
Interest on note receivable	176	202
Other income	55	174
	34,093	33,776
Expenses		
Cost of land sales	7,383	6,194
Cost of house sales	12,500	16,225
Revenue property operating expenses	771	638
Depreciation	103	81
Interest - Note 10	1,017	957
Operating and administrative - Note 11	2,234	2,148
	24,008	26,243
Income before income taxes and extraordinary item	10,085	7,533
Provision for income taxes		
Current	4,402	2,492
Deferred	331	1,045
	4,733	3,537
Income before extraordinary item	5,352	3,996
Extraordinary item	-	1,209
Net income for the year	5,352	5,205
Retained earnings, beginning of the year	18,078	13,977
	23,430	19,182
Dividends	1,384	1,104
Retained earnings, end of the year	$ 22,046	18,078
Earnings per share		
Net income before extraordinary item	$ 1.93	1.45
Net income for the year	$ 1.93	1.89

CONSOLIDATED BALANCE SHEET

ASSETS	1978 (000's)	1977 (000's)
Accounts receivable	**$ 1,199**	660
Agreements receivable on real estate sales	**10,620**	11,528
Mortgages receivable	**307**	440
Due from joint ventures - Note 5	**98**	—
Note receivable	**1,840**	2,344
Real estate for development and sale - Note 2	**66,958**	40,844
Revenue properties - Note 3	**18,522**	12,472
Other assets	**298**	188
	$ 99,842	68,476

APPROVED ON BEHALF OF THE BOARD

T. C. MELTON *Director*

W. G. HOLMES *Director*

LIABILITIES AND EQUITY	1978 (000's)	1977 (000's)
Bank indebtedness - Note 4	$ **13,722**	7,860
Accounts payable	**3,773**	2,858
Due to joint ventures - Note 5	**—**	462
Provision for real estate development costs	**11,757**	6,142
Income taxes payable	**641**	754
Agreements payable on real estate for development and sale - Note 6	**28,163**	17,895
Mortgages and agreements payable on revenue properties - Note 7	**12,799**	7,835
Deferred income taxes - Note 8	**3,982**	3,635
	74,837	47,441
Share capital - Note 9	**2,959**	2,957
Retained earnings	**22,046**	18,078
	25,005	21,035
	$ **99,842**	68,476

AUDITORS' REPORT

To the Shareholders of Melcor Developments Ltd.

We have examined the consolidated balance sheet of Melcor Developments Ltd. as at December 31, 1978 and the consolidated statements of income and retained earnings and source and use of cash for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the source and use of its cash for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Willetts Macmahon & Company
Chartered Accountants.

Edmonton, Alberta, March 21, 1979.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF CASH

	1978	1977
	(000's)	(000's)
Source of cash		
Operations	$ 5,569	4,991
Sale of revenue properties	—	1,345
Decrease in agreements receivable on real estate sales	908	—
Bank loans	6,041	420
Decrease in mortgages receivable	133	194
Agreements payable on real estate for development and sale	16,465	3,508
Mortgages and agreements payable on revenue properties	5,033	3,777
Share capital	2	17
Decrease in net operating assets	118	329
Reduction in note receivable	504	547
	34,773	15,128
Use of cash		
Increase in agreements receivable on real estate sales	—	3,305
Increase in inventory of real estate for development and sale, less changes in provision for real estate development costs	20,266	877
Additions to revenue properties	6,119	5,395
Funds advanced to joint ventures	560	218
Payments on agreements payable on real estate for development and sale	6,197	3,632
Payments on mortgages and agreements payable on revenue properties	67	465
Dividends	1,384	1,104
	34,593	14,996
Increase in cash	180	132
Bank overdraft, beginning of year	851	983
Bank overdraft, end of year	$ 671	851

1 ACCOUNTING POLICIES

The company follows the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public Real Estate Companies.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Melcor Developments Ltd. and all of its subsidiary companies as follows:

	% Ownership
Melcor Developments Arizona, Inc.	100
Melcor Developments (B.C.) Ltd.	100
Melcor Homes Ltd.	100
Trans-Canada Mortgage Ltd.	100
Trans-Canada Joint Mortgages Corporation Ltd.	98
Dollard & Gallagher Ltd.	100

The minority shareholders' equity in the net assets of Trans-Canada Joint Mortgages Corporation Ltd. is not significant and has been included in accounts payable on the consolidated balance sheet.

(b) Joint Ventures

Joint ventures in which the company has less than a 50% interest are accounted for on the equity basis.

(c) Land Development

(i) Cost of Land Held for Future Development

The following costs are capitalized as part of the cost of land:

- Real estate taxes
- Interest on debt specifically related to the acquisition of the land
- Interest on general debt deemed applicable to the investment in land
- Direct costs such as commissions, legal fees and preliminary engineering costs, not including administrative overhead

(ii) Land Under Development

- The cost of the land is pro-rated to each phase of a project on an acreage basis at the time the company enters into a development agreement with the respective municipality
- The total costs of each phase of a project are allocated to individual lots on the anticipated selling price basis
- The unexpended portion of the estimated servicing costs, shown on the balance sheet as "Provision for real estate development costs", is recorded as a liability at the time the first sales from the phase are recorded
- Whenever an estimate is known to be materially different from the actual costs incurred, an adjustment is made to the cost of the lots and the liability for estimated completion costs

(iii) Recognition of Income

The company recognizes income on sale of land when a minimum of 15% of the sale price has been received and the sale is unconditional.

(d) House Construction

(i) Cost of Residential Lots for Future Construction

The following costs are capitalized as part of the cost of the land:

- Real estate taxes
- Interest on debt specifically related to the acquisition of the land
- Direct costs such as commissions, legal fees and other carrying costs

(ii) Houses Under Construction

The following costs are included in the cost of houses under construction:

- Cost of the land
- Real estate taxes and carrying costs of the land until the house is sold
- Interest on debt specifically related to the land or the construction
- Materials, sub-contract costs, direct labour and other direct development costs, not including administrative overhead

(iii) Recognition of Income

The company recognizes income on sale of houses when the purchaser is entitled to possession and when the company has received the closing funds. The company includes in cost of house sales a provision for warranties to purchasers.

(e) Revenue Properties

(i) Cost of Revenue Properties Under Development

The following costs are capitalized as part of the cost of the property until a 75% level of occupancy is achieved subject to a reasonable maximum period dependent upon the size of the project:

- Interest on debt specifically related to the development of the property
- Interest on general debt deemed applicable to the investment in the development
- Operating income and expenses
- Construction costs and other direct development costs

Initial leasing costs are capitalized until the property is fully rented.

(ii) Cost of Land Held for Future Development

The following costs are capitalized as part of the cost of the land:

- Real estate taxes
- Interest on debt specifically related to the acquisition of the land
- Interest on general debt deemed applicable to the investment in the property
- Direct costs such as commissions, legal fees and other carrying costs

(f) Depreciation Policy

The company depreciates buildings using a 5% sinking fund method based on an estimated useful life of 50 years (35 years for frame construction). Other assets are depreciated using either the declining balance or straight-line method depending on the type of asset and its estimated useful life.

(g) Translation of Foreign Currency

Accounts of the U.S. subsidiary company have been translated into Canadian dollars as follows:

Real estate and share capital at exchange rates prevailing at the dates of transactions

Other assets and liabilities at year-end exchange rates

Direct development costs at average exchange rates during the year

The resulting exchange gains or losses are deferred until realized and are included under land held for future development.

2 REAL ESTATE FOR DEVELOPMENT AND SALE

Land Development

	1978 (000's)	1977 (000's)
Land held for future development		
Land cost	**$ 33,268**	16,839
Options	**35**	104
Carrying costs and pre-development costs	**6,260**	4,002
	39,563	20,945
Land developed or under development		
Land cost	**798**	1,438
Carrying costs	**395**	530
Development costs	**11,961**	6,175
	13,154	8,143
	52,717	29,088

House Construction

Houses under construction	**7,412**	7,554
Residential lots for future construction	**6,829**	4,202
	14,241	11,756
	$ 66,958	40,844

The majority of the land held for future development has been acquired by agreement for sale. Title to this land will be obtained when payment on these agreements is made.

The total cost of the land held under option will be $671,800 when the options are exercised.

The company also has a contingent asset arising from agreements which give the company the right to purchase one-third of the residential lots to be derived from the future subdivision of 550 acres of land in the City of Edmonton at a fixed price substantially lower than the present market value.

3 REVENUE PROPERTIES

	1978 (000's)	1977 (000's)
Revenue properties		
Land	$ 979	968
Buildings and equipment	7,467	7,279
	8,446	8,247
Accumulated depreciation	242	174
	8,204	8,073
Revenue properties under development		
Land	1,198	871
Development costs	6,974	2,349
	8,172	3,220
Land held for future development	2,146	1,179
	$18,522	12,472

4 BANK INDEBTEDNESS

The company's bank loans are secured by a fixed charge on certain revenue properties, the note receivable, a general assignment of accounts receivable and a floating charge over other assets of the company. The current portion of the indebtedness is $12,422,000. The balance of $1,300,000 is payable at $400,000 per year.

5 JOINT VENTURES

The company's proportionate share of the assets and liabilities of joint ventures at December 31 of each of the following years was:

	1978 (000's)	1977 (000's)
Assets		
Cash	$ 27	2
Agreements receivable on real estate sales	—	88
Real estate for development and sale - at cost	1,050	18
	1,077	108
Liabilities		
Bank loans	—	322
Accounts payable	924	47
Income taxes payable	4	3
Provision for real estate development costs	51	198
	979	570
Due from (to) joint ventures	$ 98	(462)

The company is contingently liable for the total liabilities of the joint ventures in the amount of $1,788,000, however, the total assets of the joint ventures are sufficient for satisfaction of these liabilities.

6 AGREEMENTS PAYABLE ON REAL ESTATE FOR DEVELOPMENT AND SALE

	1978 (000's)	1977 (000's)
Agreements payable on land held for future development	$ 22,570	12,268
Agreements payable on residential lots held for future construction	939	1,208
Agreements payable and mortgage advances on houses under construction	4,654	4,419
	$28,163	17,895

Principal payments due within the next five years on agreements payable on land held for future development are as follows:

	(000's)
1979	$ 8,211
1980	4,166
1981	2,627
1982	2,346
1983	1,652
Subsequent	3,568
	$22,570
Average annual interest rate	9.3%

Principal payments in excess of the amounts due will be made as title is required to initiate development of the various properties.

7 MORTGAGES AND AGREEMENTS PAYABLE ON REVENUE PROPERTIES

	1978 (000's)	1977 (000's)
Mortgages payable on revenue properties	$ 5,663	5,732
Mortgages payable on revenue properties under development	6,538	2,103
Agreements on land held for future development	598	—
	$12,799	$7,835

Principal payments due within the next five years on mortgages payable on revenue properties are as follows:

	(000's)
1979	$ 71
1980	77
1981	85
1982	433
1983	102
Subsequent	4,895
	$5,663

Average annual interest rate 9.5%

8 DEFERRED INCOME TAXES

On a cumulative basis, income taxes payable have been reduced by $3,982,000 as a result of the following:

	1978 (000's)	1977 (000's)
Deferring profits on the sale of real estate for tax purposes	$1,525	1,891
Interest and property taxes on real estate for development and sale deducted for tax purposes	805	646
Depreciation deducted for tax purposes in excess of the amount recorded in the accounts	844	598
Interest, property taxes and development costs on revenue properties deducted for tax purposes	775	481
Other items	33	19
	$3,982	3,635

9 SHARE CAPITAL

Authorized — 3,000,000 shares of no par value

	Shares	Consideration
Issued		
December 31, 1977	2,766,403	$2,957,000
Employee stock purchases	600	2,000
December 31, 1978	2,767,003	$2,959,000

Common shares are reserved for issue pursuant to the following:

(i) 600 shares under agreement with employees provided certain conditions are met. The consideration for these shares will be the market value of the shares at the time the agreements were approved.

(ii) 14,000 shares in connection with an option to an officer on August 8, 1978 enabling him to purchase shares at $9.90 per share between January 2, 1979 and August 7, 1983.

10 INTEREST

	1978 (000's)	1977 (000's)
Bank loan interest	$ 899	644
Interest on mortgages and agreements payable on revenue properties	1,004	552
Interest on agreements payable on real estate for development and sale	1,396	1,063
	3,299	2,259
Less interest capitalized Real estate for development and sale	1,762	1,237
Revenue property land held for future development and revenue properties under development	520	65
	2,282	1,302
	$1,017	957

11 OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses are comprised of the following items:

	1978 (000's)	1977 (000's)
Land development administrative expenses	$ 563	474
House construction administrative expenses	1,186	1,151
Revenue property administrative expenses	107	112
Mortgage services administrative expenses	9	21
General corporate expenses	369	390
	$2,234	2,148

12 REMUNERATION TO DIRECTORS AND OFFICERS

Remuneration paid during the year to directors and senior officers of the company amounted to $193,000 (1977 - $186,000).

13 ANTI-INFLATION LEGISLATION

The company has been subject to mandatory compliance with federal government legislation which controls prices, profit margins, employee compensation and dividends. While the final compliance report will not be filed until 1979, management is of the opinion that the company has complied with the anti-inflation program.

LAND DEVELOPMENT

	Map/ Page	Developed Land			Land held for future development	Approximate date of development
		Building Lots	Residential Acres	Commercial Industrial Acres	Acres	
Edmonton Region	1/6					
Edmonton	4/6	4			125	1979-1982
Spruce Grove	2/6	166	15	70	943	1979-1994
Leduc	3/6			1	279	1979-1985
County of Leduc	2/6			27	80	1980-1982
County of Strathcona	5/6				527	1980-1990
Calgary Region	1/7					
Calgary	2/7	11	4	4	1187	1979-1988
M.D. Rockyview	3/7				683	1980-1985
Red Deer Region	4/7					
Red Deer	5/7				139	1982-1985
Blackfalds	6/7				35	1980
Regina	—				70	1980-1984
Lethbridge	1 & 2/8				66	1981-1983
Kamloops	—	31	13		111	1982
Phoenix	3,4 & 5/8				372	1979-1982
Other	—				65	
		212	32	102	4682	
Land Under Option						
Lethbridge	1/8				134	1981-1986
Edmonton	1 & 4/6				175	1980-1984
		212	32	102	4991	

REVENUE PROPERTIES

Residential Properties

Brookwood Manor, Spruce Grove	24	units constructed in 1973

Commercial Properites

Kingsway Building, Edmonton	7,000	sq. ft. purchased in 1967
Melton Building, Edmonton	116,700	sq. ft. constructed in 1973
Grove Plaza Shopping Centre, Spruce Grove	41,000	sq. ft constructed in 1973
Corinthia Park Shopping Centre, Leduc	12,000	sq. ft. constructed in 1975
Airport Road Building, Edmonton	47,000	sq. ft. purchased in 1977
Office Building, Edmonton	73,000	sq. ft. constructed in 1978
Office/Warehouse, Edmonton	34,400	sq. ft. constructed in 1978
Office/Warehouse, Calgary	99,000	sq. ft. constructed in 1978
Office Building, Regina	6,200	sq. ft. completion in 1979

Land for Future Development

Calgary

Forest Lawn	.98	acres commercial retail
Downtown Central	.37	acres office
Kensington Road	.34	acres office
Franklin Park	6.24	acres office/warehouse

Regina

University Park	6.3	acres shopping centre and multi-family

Edmonton

Cascade Business Park	7.2	acres office/warehouse

RESIDENTIAL CONSTRUCTION

Houses under Construction

Edmonton Region	80	units completion & sale 1979
Calgary Region	55	units completion & sale 1979
Regina Region	27	units completion & sale 1979
Red Deer Region	29	units completion & sale 1979
	191	units

Residential Lots for Future Development

Edmonton Region	163	lots construction & sale 1979
Calgary Region	93	lots construction & sale 1979
Regina Region	46	lots construction & sale 1979
Red Deer Region	5	lots construction & sale 1979
	307	lots

Because the company is involved in several major activities, the financial information supplied in aggregate terms does not provide sufficient information to enable an understanding of the contributions of each activity to the company as a whole.

In the following schedules, net income from operations before tax has been calculated for each division by deducting from the revenues of the division all direct costs and administrative expenses which can be specifically attributed to the division. Common costs which have not been allocated are the cost of corporate debt - $473,000 (1977 - $438,000) and general corporate expenses (such as audit, public relations and corporate donations, directors' fees and senior management expenses, etc.) The allocation of these costs on an arbitrary basis to the divisions would not assist in the evaluation of the divisional contributions.

The cash flow from operations by division has been calculated by taking the after-tax contribution to net income of each division and adjusting for non-cash items such as deferred income taxes and depreciation.

Earnings - By Division
in thousands of dollars

	1978			1977		
	Gross Revenue	**Net Income**	**%**	Gross Revenue	Net Income	%
Land development	**$26,417**	**$13,621**	**96.6**	15,861	7,545	89.4
Residential construction	**13,667**	**(36)**	**(.2)**	17,602	215	2.6
Revenue properties	**1,708**	**219**	**1.6**	1,697	363	4.3
Other income	**325**	**287**	**2.0**	375	314	3.7
	42,117	**14,091**	**100.0**	35,535	8,437	100.0
Elimination of inter-division transactions	**(8,024)**	**(3,178)**		(1,759)	(104)	
	$34,093	**10,913**		33,776	8,333	
Common costs		**828**			800	
		10,085			7,533	
Income taxes		**4,733**			3,537	
Net income from operations		**$ 5,352**			3,996	

Cash Flow From Operations - By Division
in thousands of dollars

	1978		1977	
	After-Tax Cash Flow	**%**	After-Tax Cash Flow	%
Land Development	**$ 5,343**	**92.1**	4,678	93.7
Residential Construction	**(8)**	**(.1)**	91	1.8
Revenue Properties	**723**	**12.5**	500	10.0
Other	**149**	**2.5**	163	3.3
Common Costs	**(406)**	**(7.0)**	(440)	(8.8)
Total cash flow from operations	**$ 5,801**	**100.0**	4,992	100.0

	1978 (000's)	1977 (000's)	1976 (000's)	1975 (000's)	1974 (000's)
Land Development					
Land sales	$ 25,048	14,914	13,904	8,948	4,737
Cost of sales	12,233	7,841	6,369	4,834	2,421
	12,815	7,073	7,535	4,114	2,316
Interest earned	1,360	913	624	473	439
Other income	9	34	19	7	29
	14,184	8,020	8,178	4,594	2,784
Administrative expenses	563	475	389	242	203
Net income before taxes	$ 13,621	7,545	7,789	4,352	2,581
Residential Construction					
House sales	$ 13,667	17,602	11,142	10,764	4,540
Cost of sales	12,517	16,236	9,042	9,220	4,053
	1,150	1,366	2,100	1,544	487
Administrative expenses	1,186	1,151	883	520	338
Net income (loss) before taxes	$ (36)	215	1,217	1,024	149
Revenue Properties					
Rental income	$ 1,708	1,697	2,109	1,986	839
Operating expenses	770	638	750	857	374
Interest	544	519	677	836	409
Depreciation	68	65	93	138	70
	1,382	1,222	1,520	1,831	853
	326	475	589	155	(14)
Administrative expenses	107	112	93	81	130
Net operating income	219	363	496	74	(144)
Gain (loss) on sale of properties	—	—	625	143	(12)
Net income before taxes	$ 219	363	1,121	217	(156)

Statistical	1978	1977	1976	1975	1974
Earnings per share, fully diluted					
- Before extraordinary items	$ 1.93	1.45	1.66	1.27	.41
- For period	1.93	1.89	2.78	1.30	.41
Cash flow per share	2.10	1.81	2.04	1.90	.77
Dividends per share	.50	.40	.36	.30	.14
Shareholders' Equity					
- Per share	9.04	7.60	6.13	4.00	3.05
- Total (000's)	25,005	21,035	16,917	9,990	6,508
Shares issued					
- End of year (000's)	2,767	2,766	2,761	2,500	2,133
Stock price range	$14¼-6½	7⅞-4¼	5¼-3⅝	4-2⅛	4½-1⅞

	1978	1977	1976	1975	1974
	(000's)	(000's)	(000's)	(000's)	(000's)
Financial Position					
Commissions and sundry receivables	$ 1,297	660	503	2,766	1,641
Agreements receivable	10,620	11,528	8,223	6,306	2,866
Mortgages	307	440	634	933	1,146
Note receivable	1,840	2,344	2,890	—	—
Real estate for development and sale	66,958	40,844	38,238	23,003	18,550
Revenue properties	18,522	12,472	11,256	13,057	13,212
Other assets	298	188	280	866	593
Total Assets	$99,842	68,476	62,024	46,931	38,008
Bank indebtedness	$13,722	7,860	7,573	5,610	4,969
Accounts payable and other liabilities	4,414	4,074	3,884	5,090	2,705
Provision for real estate development costs	11,757	6,142	4,412	2,087	907
Agreements payable - real estate for development and sale	28,163	17,895	18,019	11,992	11,072
Mortgages payable - revenue properties	12,799	7,835	7,901	9,153	8,988
Debentures	—	—	—	104	556
Deferred income taxes	3,982	3,635	3,319	2,904	2,303
Share capital	2,959	2,957	2,940	2,393	1,737
Retained earnings	22,046	18,078	13,976	7,598	4,771
Total Liabilities and Equity	$99,842	68,476	62,024	46,931	38,008
Operations					
Land sales	$17,252	13,197	12,562	8,667	3,368
House sales	13,667	17,602	11,142	10,764	4,540
Revenue property income	1,706	1,647	2,028	1,986	839
Interest on agreements receivable	1,133	871	584	498	380
Mortgage interest and discounts	104	83	107	146	178
Interest on note receivable	176	202	290	—	—
Joint venture and other income	55	174	223	200	217
	34,093	33,776	26,936	22,261	9,522
Cost of land sales	7,383	6,194	5,752	4,074	1,414
Cost of house sales	12,500	16,225	9,042	9,221	4,053
Revenue property operating expense	771	638	751	857	374
Depreciation	103	81	106	147	131
Interest	1,017	957	1,157	1,224	848
Administrative and other	2,234	2,148	1,811	1,455	1,217
	24,008	26,243	18,619	16,978	8,037
Income from continuing operations	10,085	7,533	8,317	5,283	1,485
Brokerage income	—	—	—	1,713	769
	10,085	7,533	8,317	6,996	2,254
Income taxes	4,733	3,537	3,917	3,501	1,190
	5,352	3,996	4,400	3,495	1,064
Extraordinary items	—	1,209	2,961	72	—
Net income	$ 5,352	5,205	7,361	3,567	1,064

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